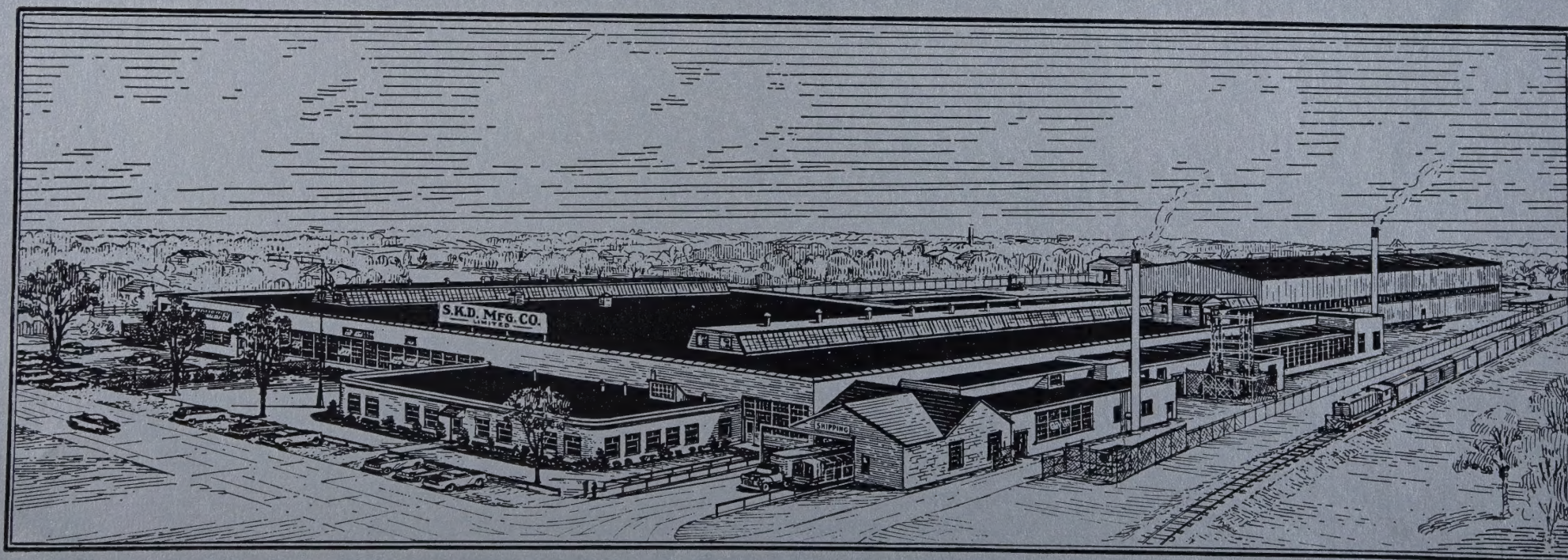


S.K.D. *Manufacturing Co., Limited*

23rd ANNUAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30th, 1965



BOARD OF DIRECTORS

J. ARTHUR DUPONT	— Partner, Craig, Forget & Co., Limited. Montreal, P.Q.
WILLIAM T. GRANT	— President, Grant & Mingay Insurance Limited. Windsor, Ontario.
GORDON J. KNIGHT	— President, S.K.D. Manufacturing Co., Limited. Amherstburg, Ontario.
WALTER L. MCGREGOR, Q.C.	— McGregor, Stewart & McWilliams, Barristers and Solicitors, Windsor, Ontario.
JOHN C. STODGELL	— President, Walwyn, Stodgell & Co., Limited. Toronto, Ontario.
ROSS M. WILLMOTT	— President, Traders Finance Corporation Limited. Toronto, Ontario.

OFFICERS

GORDON J. KNIGHT	— President
WALTER L. MCGREGOR, Q.C.	— Vice-President
D. ALLAN ROBERTS	— Secretary-Treasurer

AUDITORS

R. W. Meanwell & Co., Chartered Accountants, Windsor, Ontario.

BANKERS

Bank of Nova Scotia, Windsor, Ontario.

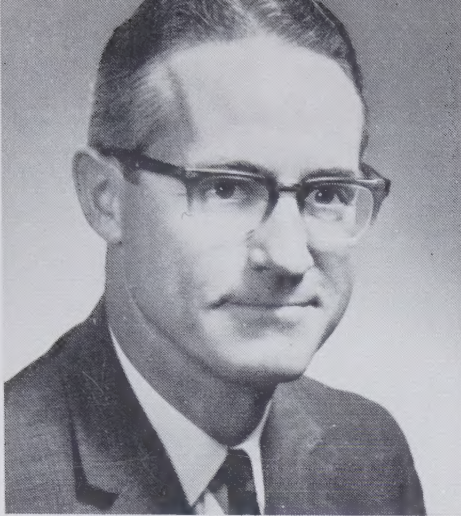
Canadian Imperial Bank of Commerce, Amherstburg, Ontario.

National Bank of Detroit, Detroit, Michigan.

TRANSFER AGENTS, REGISTRARS and TRUSTEES

First Mortgage Bonds	}	— Canada Trust, Huron & Erie, Toronto, Ontario.
6% Debentures		
General Mortgage Bonds		— Royal Trust Company, Toronto, Ontario.
First Preference Shares		— Eastern & Chartered Trust Company, Toronto, Ontario.
Second Preference Shares		— Crown Trust Company, Toronto, Ontario.
Common Shares		— Eastern & Chartered Trust Company, Toronto, Ontario.

Common Shares listed on Toronto Stock Exchange



Gordon J. Knight, President

DIRECTORS' LETTER TO SHAREHOLDERS

GENERAL

The fiscal year ended September 30th, 1965 was the best in the history of our Company. Equally important, our manufacturing operations were further strengthened and broadened to place us in an improved position to compete successfully in the North American market under the current Automotive Free Trade Plan.

SALES AND EARNINGS

It will be recalled that in the early part of the 1965 production year all major auto manufacturers suffered work stoppages; some of considerable duration. However the eventual demand for our parts was such that the total sales were slightly above those of last year. Net operating income, however, rose 36.6% to \$331,336 compared with \$242,564 in 1964. Net earnings per common share, after provision for dividends on preferred shares, totalled \$1.14 compared with 82c per share in 1964. In addition \$33,382, representing 12c per common share, was realized from the sale of investments previously written off.

DIVIDENDS

Dividends of \$79,150 were paid, consisting of the regular quarterly dividends on the first preference shares, regular quarterly and participating dividends on the second preference shares, and two dividends of 10c each on the common shares. The Company intends to establish a regular quarterly dividend of 5c on the common shares in the current fiscal year.

SUBSIDIARY

Automated Stampings Limited, a wholly-owned subsidiary of S.K.D. Manufacturing Co. Limited, commenced operations October 1, 1964. The function of this Company is to manufacture parts for S.K.D. Manufacturing Co. Limited. Under the provisions of The Income Tax Act and The Corporations Tax Act of Ontario relating to new manufacturing businesses in designated areas, the earnings from Automated Stampings Limited are exempt from Income Taxes for a three year period ending September 30, 1967.

FINANCIAL POSITION

The year marked the largest capital spending program in the Company's history. Plant and equipment expenditures amounted to \$591,664, approximately double 1964's. Working capital at the end of the year increased to \$797,177 from \$623,451 in 1964.

FIXED ASSETS ADDED

Two large presses were installed in January, 1965, and a high bay building 70' wide by 196' long was completed in September. Several additional large presses, which are expected to be operating by June, 1966, have been ordered and financing has been arranged through the Federal Government's Adjustment Assistance Board upon favourable terms.

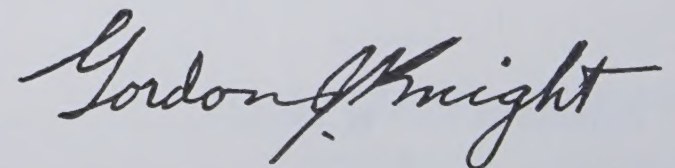
PERSONNEL

Total employment now stands at approximately 255. The Collective Agreement between the Company and the International Association of Machinists expired on October 22nd, 1965; and the Company is presently negotiating the terms of a new contract. Your Directors are pleased to record their sincere appreciation for the loyal efforts of our employees which have been an important factor in making this a successful year.

OUTLOOK

Your Management shares the optimism expressed by spokesmen for the Automobile Companies and we anticipate that the present high level of your Company's sales will continue. Some orders have already been received for the 1967 model cars and the tooling is well under way. Production of parts for these vehicles will commence in May of 1966.

Respectfully submitted on behalf of the Board of Directors,



GORDON J. KNIGHT,
President.

December 1, 1965.
Amherstburg, Ontario

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended September 30, 1965
(with comparative information for 1964)

Source of Funds:	1965	1964
Net profit	\$ 331,336	\$ 242,564
Depreciation	220,721	180,725
Deferred income taxes	113,000	83,000
Net proceeds of issue of common shares	8,161	6,072
Proceeds of sale of investments	33,382	
Long-term borrowing on chattel mortgages	225,000	
Book value of fixed assets sold	568	7,804
Sundry	3,646	7,069
	\$ 935,814	\$ 527,234
Application of Funds:		
Purchases of fixed assets	\$ 591,664	\$ 303,741
Dividends paid	79,150	51,465
Provision for and payments made on long-term debt	83,812	58,466
Purchase of own preference shares for cancellation	7,462	
	\$ 762,088	\$ 413,672
Increase in working capital	\$ 173,726	\$ 113,562
Working capital at end of year	\$ 797,177	\$ 623,451

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

CONSOLIDATED STATEMENT OF PROFIT AND LOSSFor the year ended September 30, 1965
(with comparative information for 1964)

	1965	1964
Operating profit before depreciation	\$ 802,767	\$ 717,599
Deduct: Depreciation	220,721	180,725
Operating profit	\$ 582,046	\$ 536,874
Add: Gain on sale of fixed assets	2,470	3,481
Gain on retirement of long-term debt	3,271	3,698
	\$ 587,787	\$ 544,053
Deduct: Interest on long-term debt	\$ 68,804	\$ 57,241
Amortization of bond discount	3,647	4,248
	\$ 72,451	\$ 61,489
Net profit before income taxes	\$ 515,336	\$ 482,564
Provision for income taxes:		
Taxes payable for current year	\$ 71,000	\$ 157,000
Deferred income taxes	113,000	83,000
	\$ 184,000	\$ 240,000
Net profit for the year	<u>\$ 331,336</u>	<u>\$ 242,564</u>

S.K.D. MANUFACTURING COMPANY

(A Public Company incorporated under the laws of the State of New York)
Amherstburg, Ontario, Canada

CONSOLIDATED

As at September 30, 1965 (with comparative figures for 1964)

ASSETS**Current Assets:**

		1965	1964
Cash		\$ 179,618	\$ 37,036
Accounts receivable		532,242	631,131
Inventories—valued at cost or market, whichever lower:			
Raw materials	\$ 584,033		
Work in process	271,184		
Finished goods	120,045		
Supplies	4,643	979,905	736,516
		<u>11,892</u>	<u>9,178</u>
Deposits and prepaid expenses		\$1,703,657	\$1,413,861

Fixed Assets—at depreciated values determined as at September 30, 1955
by Warnock Hersey Company Ltd. plus subsequent additions at cost:

Land	\$ 45,201		
Buildings	\$ 713,044		
Less: Accumulated depreciation	185,245	527,799	
		<u>1,215,882</u>	
Machinery and equipment	\$2,412,933		
Less: Accumulated depreciation	1,197,051	1,788,882	1,418,506

Other Assets:

Unamortized bond discount	\$ 25,535		
Sinking fund cash	1,259	26,794	39,441

Approved on behalf of the Board:

GORDON J. KNIGHT, Director

WALTER L. MCGREGOR, Director

\$3,519,333 \$2,871,808

TURING CO. LIMITED

under the laws of the Province of Ontario)
Toronto, Ontario

BALANCE SHEET

(comparative information for 1964)

LIABILITIES AND CAPITAL**Current Liabilities:**

	1965	1964
Bank loans (secured)	\$ 145,000	\$ 155,000
Accounts payable and accrued expenses	657,476	436,915
Dividends payable	27,707	13,721
Estimated liability for income taxes	8,632	132,729
Other taxes payable	13,665	18,045
Portion of long-term debt due within one year	54,000	34,000
	<u>\$ 906,480</u>	<u>\$ 790,410</u>

Long-term Debt (see Note 1) \$1,100,984

Less: Portion due within one year, included in current liabilities 54,000 \$1,046,984 \$ 905,796

Deferred Income Taxes (see Note 2) \$ 453,000 \$ 340,000

Capital and Surplus:

Capital (see Note 3):

6% cumulative redeemable sinking fund first preference shares of \$10 each par value with 25 votes each redeemable at \$10.50 (authorized 50,000 shares less 6,710 redeemed) Issued—23,980 shares fully paid	\$ 239,800	\$ 241,800
6¼% cumulative participating second preference shares of \$20 each par value redeemable at \$21 (authorized 8,184 shares less 863 redeemed) Issued—7,321 shares fully paid	146,420	152,260
Common shares without nominal or par value (authorized 450,000 shares) Issued—269,750 shares fully paid (including 2,950 shares issued in 1965 for \$8,161 cash)	135,693	127,532
	<u>\$ 521,913</u>	<u>\$ 521,592</u>

Surplus:

Retained earnings	\$ 549,083	
Sinking fund reserve	24,664	
Contributed surplus	<u>17,209</u>	
	590,956	314,010
	<u>\$1,112,869</u>	<u>\$ 835,602</u>
	<u>\$3,519,333</u>	<u>\$2,871,808</u>

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

CONSOLIDATED STATEMENTS OF SURPLUS

For the year ended September 30, 1965

(with comparative information for 1964)

Retained Earnings:	1965	1964
Net profit for the year	\$ 331,336	\$ 242,564
Less: Dividends on first preferred shares	14,478	14,508
Dividends on second preferred shares	10,722	10,277
Net profit available for common shares	\$ 306,136	\$ 217,779
Less: Dividends on common shares	53,950	26,680
Portion of net profit retained	\$ 252,186	\$ 191,099
Add: Balance of retained earnings at beginning of year	277,351	97,018
Proceeds of sale of investments previously written off	33,382	
Adjustment of income taxes of prior years		2,070
	\$ 562,919	\$ 290,187
Less: Goodwill written off	9,000	
Transfer to sinking fund reserve	4,836	4,836
Provision for loss on investments		8,000
Balance at end of year	\$ 549,083	\$ 277,351
Sinking Fund Reserve:		
Balance at beginning of year	\$ 19,828	\$ 14,992
Add: Amount transferred from retained earnings	4,836	4,836
Balance at end of year	\$ 24,664	\$ 19,828
Contributed Surplus:		
Balance at beginning of year	\$ 16,831	\$ 16,831
Add: Gain on purchase of own preference shares for cancellation	378	
Balance at end of year	\$ 17,209	\$ 16,831

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 1965

	1965	1964
NOTE 1: LONG-TERM DEBT:		
(a) Loans secured by chattel mortgages on machinery, repayable in equal monthly payments including interest over various terms ending in 1975.	\$ 363,984	\$ 162,796
(b) Bonds and debentures:		
5¼% first mortgage sinking fund bonds due December 1, 1975 (authorized \$500,000; total issued \$500,000)	366,000	377,000
5½% general mortgage sinking fund bonds due December 1, 1980 (authorized \$500,000; total issued \$350,000)	247,500	269,000
6% sinking fund debentures due December 1, 1985 (closed issue; originally issued \$178,955)	123,500	131,000
	\$ 1,100,984	\$ 939,796

NOTE 2: DEFERRED INCOME TAXES:

Because of the introduction of appraisal increments in the accounts and because of annual differences between depreciation charged to income and allowances claimed for income tax purposes, at September 30, 1965 the undepreciated cost of depreciable fixed assets exceeded the amounts available for tax purposes by approximately \$871,000. Deferred Income Taxes account represents the tax liability expected to arise in future years when depreciation charged against income will exceed the allowances deductible for income tax purposes. Of the tax provision of \$184,000 in respect of 1965, \$113,000 is deferred to future years.

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at September 30, 1965

NOTE 3: CAPITAL:

The indentures securing the 5¼% first mortgage bonds and the 5½% general mortgage bonds provide that the Company may not effect any reduction of or redeem any of its capital nor declare any dividends on any shares of its capital stock should the net current assets be less than or be reduced thereby below \$200,000.

The provisions of the supplementary letters patent relating to the 6% First Preference shares require the Company on or before January 28, 1966 to set aside on its books to the credit of a sinking fund reserve account an amount of \$4,796. No further purchases or redemption of First Preference shares are required in 1966 to meet sinking fund requirements.

NOTE 4: REMUNERATION OF DIRECTORS:

Apart from their remuneration for services as officers and employees the remuneration of directors as such amounted to \$3,000 in the year ended September 30, 1965; \$4,000 in the year 1964.

NOTE 5: COMMITMENTS:

Commitments for additions to fixed assets, not reflected in the financial statements, amounted to \$548,000 as at September 30, 1965; \$441,000 at September 30, 1964.

NOTE 6: STOCK OPTIONS:

The Company has given options to four of its officers and employees to purchase a total of 9,750 of its common shares at prices equivalent to 85% of the market value on the day that the options were accepted for filing by the Toronto Stock Exchange. In accordance with this provision 9,000 shares may be purchased at a price of \$2.76 per share and 750 shares at a price of \$2.89 per share. Shares issued to date under these agreements amount to 5,000 shares at \$2.76 per share and 150 shares at \$2.89 per share.

AUDITORS' REPORT TO SHAREHOLDERS

October 22, 1965

The Shareholders,
S.K.D. Manufacturing Co. Limited,
Amherstburg, Ontario.

Dear Sirs:

We have examined the consolidated balance sheet of S.K.D. Manufacturing Co. Limited and its subsidiary company as at September 30, 1965 and the related consolidated statements of profit and loss, surplus and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and related consolidated statements of profit and loss, surplus and source and application of funds present fairly the combined financial position of S.K.D. Manufacturing Co. Limited and its subsidiary as at September 30, 1965 and the combined results of their operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

R. W. MEANWELL & CO.,
Chartered Accountants,
Windsor, Ontario

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

TEN YEAR FINANCIAL SUMMARY

PROFIT AND RETAINED EARNINGS	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956
Profit before depreciation and income taxes....\$	736,057	\$ 663,289	\$ 417,575	\$282,158	\$223,111	\$169,640	\$268,884	\$200,524	\$228,606	\$251,189
Depreciation	220,721	180,725	151,210	133,074	127,961	133,976	113,173	82,938	109,590	101,824
Income taxes	184,000	240,000	121,000	60,000	46,000	19,500	85,700	63,000	60,000	69,000
Net Profit	\$ 331,336	\$ 242,564	\$ 145,365	\$ 89,084	\$ 49,150	\$ 16,164	\$ 70,011	\$ 54,586	\$ 59,016	\$ 80,365
Cash Dividends paid—Preferred	25,200	24,785	24,024	26,465	27,788	27,788	28,095	21,251	28,490	28,644
—Common.....	53,950	26,680	—	—	—	—	—	—	—	—
Profit retained	\$ 252,186	\$ 191,099	\$ 121,341	\$ 62,619	\$ 21,362	\$(11,624)	\$ 41,916	\$ 33,335	\$ 30,526	\$ 51,721
Net Profit per common share	1.14	.82	.46	.29	.10	(.05)	.20	.16	.15	.24
Number of common shares outstanding.....	269,750	266,800	264,600	214,600	214,600	214,600	214,600	214,600	214,600	214,600

FINANCIAL POSITION, YEAR END

Working Capital	\$ 797,177	\$623,451	\$ 509,889	\$324,105	\$353,657	\$346,123	\$418,601	\$360,515	\$324,313	\$306,856
Plant and Equipment—net	1,788,882	1,418,506	1,303,296	877,887	873,667	883,957	847,003	894,732	915,955	903,436
Long-Term Debt and Deferred Taxes	1,499,984	1,245,796	1,221,262	646,655	675,055	703,755	730,955	757,605	776,555	799,955
Shareholders Equity	1,112,869	835,602	644,361	620,780	619,762	598,400	610,024	599,161	608,826	581,350

1958 Represents Nine Months only as Fiscal Year-End
changed from December 31st to September 30.

S.K.D. MANUFACTURING CO. LIMITED

Amherstburg, Ontario

PLANT DATA

PROPERTY

Seven Acres.

BUILDINGS

All single storey, constructed of cement blocks and metal siding, total floor area 100,000 square feet, fully protected by an automatic sprinkler system.

PUNCH PRESS DEPARTMENT

Forty modern presses ranging from 25 to 600 ton capacity, plus two 1000 ton double action deep draw presses equipped with air cushions, coil feeds, and automation devices, capable of producing stampings up to 72" x 120" x 24" deep.

OTHER EQUIPMENT

Welders, broaches, tapping, drilling, and rivetting machines. Zinc plating, bonderizing, and painting.

TOOL ROOM EQUIPMENT

Vertical hydro-tel mills, 4" horizontal boring mill, lathes, grinders, heat-treating furnaces, etc.

PRINCIPAL PRODUCTS MANUFACTURED

INDIVIDUAL STAMPINGS

Radiator supports, seat pans, door pillars, stone shields, dash and cowl panels, timing chain covers, lower suspension arms, body and chassis parts.

ASSEMBLIES

Seat adjusters, hood and luggage compartment hinges, clutch and brake pedals, door locks, remote and locking controls, clutch forks.

DIES

Tools and dies weighing up to 20,000 pounds.

MACHINE WORK

Machining, hydro-tel milling, horizontal boring, grinding and jig boring.

